POLITICAL ECONOMY OF SCOTCH WHISKY

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The next few years represent a critical period in the development of the Scotch Whisky Industry. The phenomenal post second World War growth in production and sales has now evened out. The industry has begun to shed labour, and D.C.L. has closed its plants in Glasgow and South Queensferry in mid-1984. The seemingly unassailable position of Scotch as the leading quality spirit has been challenged by 'white' ones such as vodka and rum. The company share has altered as well, with Distillers Company Limited, the giant which constitutes half the industry being eclipsed by Bells on the home market, and seriously challenged by Seagrams and Hiram Walker in the overseas ones. It will be interesting to see whether D.C.L., currently undergoing an organisational shake-up and change of leadership, is properly questioning its assumptions or merely contemplating its navel. It will also be interesting to see whether the tired old assumptions used by the majority of companies in their advertising campaigns, usually aimed at middle-aged tweed-bedecked ex-army types, will be phased out in favour of more upmarket images suitable for a wider target area. In the following article I shall examine the gap between advertising myth and corporate reality, and attempt to set some current issues in context.

Scotch Whisky is unique to Scotland. Because it is unique with a pleasing distinctive flavour – perhaps something to be proud of – it has long been used as a symbol of Scottishness, what makes Scots different from the rest. Scotch has been called variously the essence of Scotland, Scotland's life blood, the national drink (note how much mileage a well known soft drinks manufacturer has got out of being 'your other National Drink' – nobody questions what is number 1). Scots are well acquainted with the product, but are far from acquainted with the industry which gave the product such a high profile.

A quick glance through most colour supplements and one will soon pick up that Scotch Whisky advertising makes full use of other plainly recognisable symbols of Scottishness such as tartan, glens, deer, and quaint homely Scots expressions. Romantic, bellicose and masculine images abound. In addition, if one was to sift through a selection of the books that are available on Scotch, one would find the focus of the books firmly on the late 19th Century.

The reason for the books' attention to this era is that it was the time when, after the perfection of bottling and blending, Scotch became a consistent, marketable product for a wider market, and it was pushed very hard by some very colourful characters. Luckily for them, Prince Albert, Queen Victoria and Sir Walter Scott had made Scotland a fashionable place, and if one couldn't actually go there, one could capture the essence by drinking Scotch. However just because a symbol is recognisable, does not make it accurate, and if the widespread Scottish myth of Highland, kilted, warlike natives clashed with the urban, trousered, housetrained reality, then it is not difficult to imagine the huge discrepancy there is between the same symbols and reality now. When Scotch was drunk by kilted folk in glens, it was a very crude single malt produced by anyone on a small scale, not matured, and treated with far less reverence than single malt is today. With the obvious fiscal and commercial possibilities there, the ordinary man was progressively barred from distilling his own batch by legal restrictions on still size and grain tax. In the Lowlands, the Coffey continuous still (as opposed to the previous batch production still), and vatting and blending were perfected, and so by the second half of the century a consistent, quality, wide-appeal liquor was produced. The rise of whisky as a British, and then world drink was due to trousered urban folk, with the focus of power firmly in urban centres such as Perth, Edinburgh, Glasgow and London, not in Speyside or Islay. They were not much like 'craftsmen' or 'skilled in their art' but rather businessmen who made use of the convenient, easily recognisable images to emphasise the Scottishness and age of their product in their very successful marketing campaigns.

Tartanry and kailyard gave a comforting if false picture of the urban Scots past, but also helped create a sense of inferiority in the minds of the Scots urban dwellers and fostered ambiguous set of emotions in the English. They were attracted by the beauty of the scenery and spectacle of the kilt but also felt contempt for the one step removed savagery of it all. It is possible to draw links between those attitudes then and now, in the political sphere with the seventies' devolution referendum and in more general themes in the media.

The Scotch Whisky Industry in promoting its product has made use of the Scots myth. It has also created through this a new one of its own. Using advertising from the last century has meant that the real nature of the ownership and structure of the industry is not widely known. This has led to a complacency in the minds of both people and government, causing the former to be widely disturbed by D.C.L. redundancies; and the latter's laissez-faire attitude (except in matters of taxation). Non-intervention has seen the ownership of the industry polarize and now consist of large non-Scots companies for whom Scotch is just one product amongst many, and certainly not integral to their psyche, or their life blood, as it is supposed to be to Scotland.

The most successful era in terms of sales and production is the post World War Two era, which the myth and its perpetrators have masked. Information on this era and its most problematic phase – the seventies – is scant. The next section provides a brief account.

Sales and Production Since the Second World War

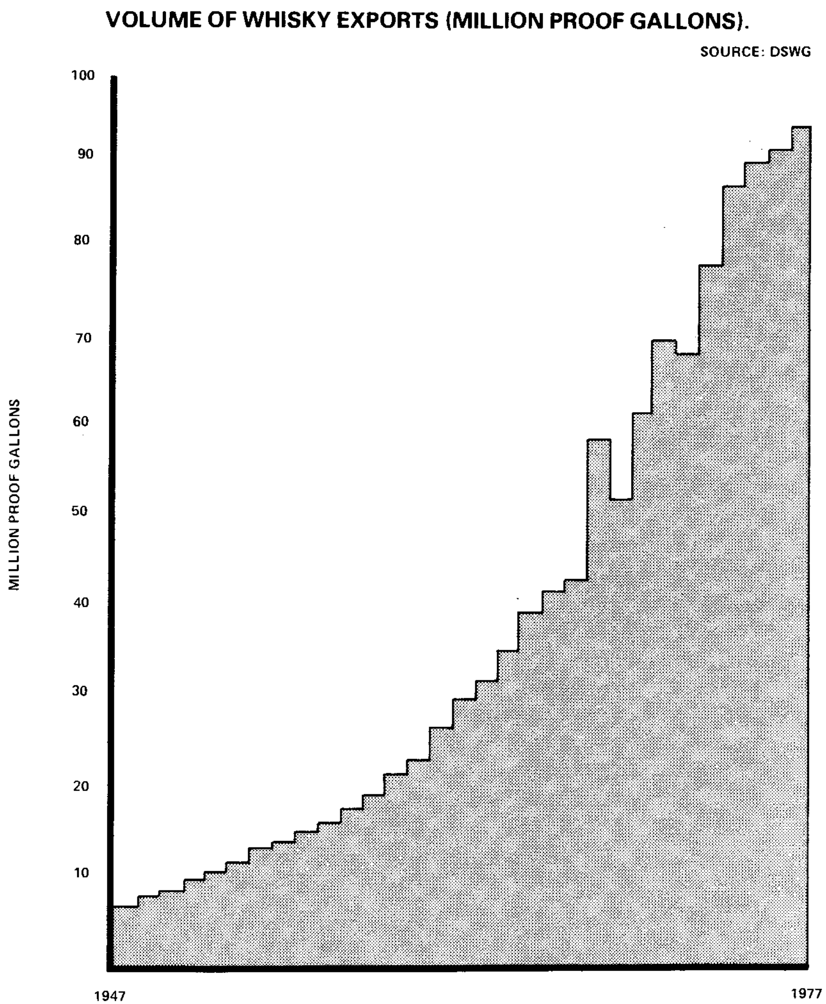
Since the Second World War, the growth of sales and value of whisky has escalated at an amazing rate; that this rate has reached a plateau in the late seventies is due to a bit of sanity creeping in.

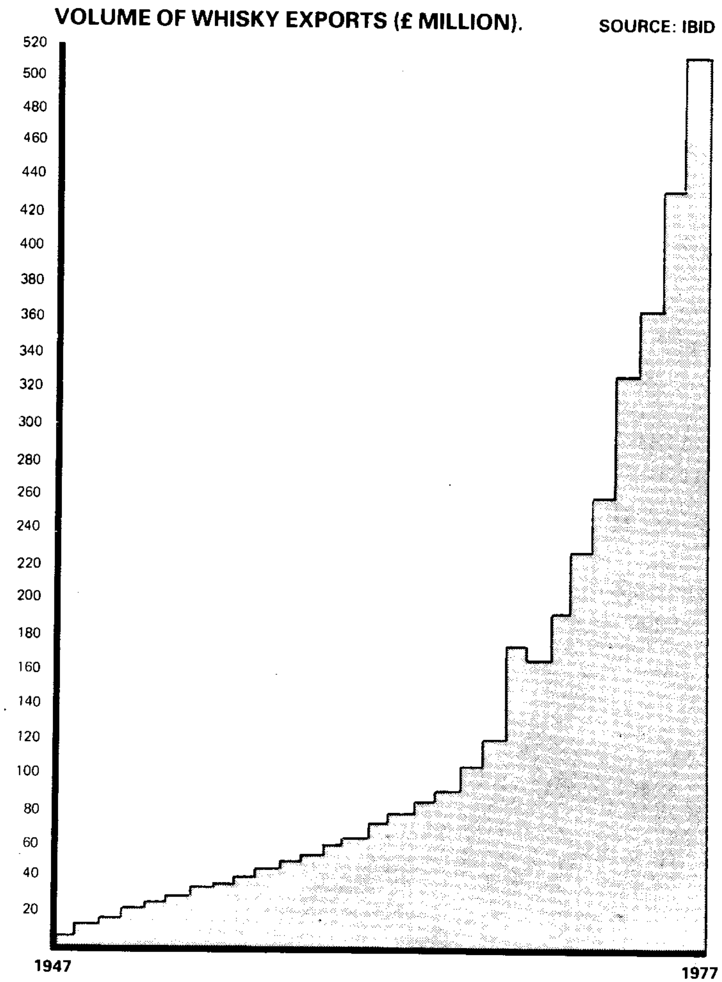
More recent figures show the current falter in progress. The hiccups between 1974 and 1976 –

	Home Releases		Exports	
Calendar Year	**Quantity in litres of pure alcohol**	**Percentage of total**	**Quantity in litres of pure alcohol**	**Percentage of total**
1971	28,771,000	13.6	182,501,000	86.4
1972	32,653,000	15.5	178,411,000	84.5
1973	39,825,000	16.4	203,577,000	83.6
1974	45,075,000	16.5	227,336,000	83.5
1975	42,410,000	15.3	234,274,000	84.7
1976	48,438,000	16.9	238,303,000	83.1
1977	40,248,000	14.2	243,633,000	85.8
1978	48,812,000	15.1	274,073,000	84.9
1979	52,536,000	16.7	262,421,000	83.8
1980	50,159,000	16.7	249,917,000	83.3
1981	47,711,000	16.3	244,239,000	83.7
1982	44,751,000	15.1	251,277,000	84.9
1983	44,561,000	16.4	227,844,000	83.6

Source: Scotch Whisky Association 2

N.B. The above figures do not include shipments to the Channel Islands, where duty was paid there. In 1980 these shipments totalled 590,341 litres of pur alcohol.


VOLUME OF WHISKY EXPORTS (MILLION PROOF GALLONS).
SOURCE: DSWG
MILLION PROOF GALLONS
100
90
80
70
60
50
40
30
20
10
1947
1977


VOLUME OF WHISKY EXPORTS (£ MILLION).
SOURCE: IBID
520
500
480
460
440
420
400
380
360
340
320
300
280
260
240
220
200
180
160
140
120
100
80
60
40
20
1947
1977

and again the next years are quite unusual. The growth in the home market and its marginally greater percentage take-up at home vis-a-vis export up since the seventies is counter intuitive. A commonsense interpretation of Scotch would have been that the market at home is saturated and that the greatest possibility for expansion would be overseas.

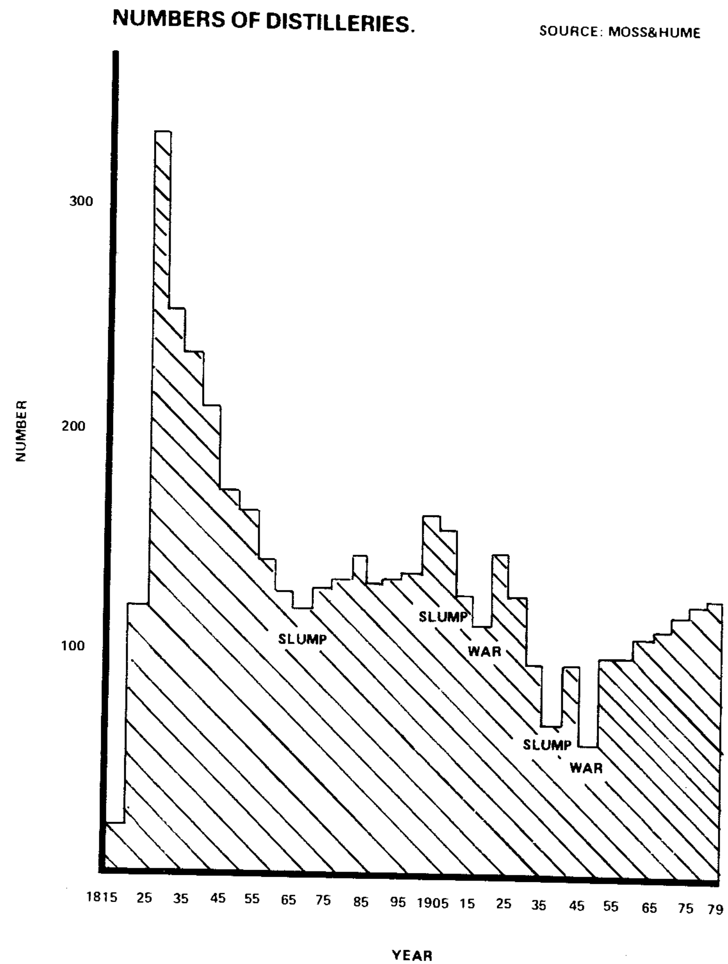
The Scotch Whisky Industry can be said to have had three discernible phases in its history.

Stage	Title	Type of Production Unit	Company	Product/ Market
1 Pre 1860	'Cottage'	small malt distillery	none/ small	malt for local consumption in Scotland
2 1860-1925	'Company'	malt/grain distilleries	family	blends for Scotland and England
3 1925+	'Corporate'	as above in larger groupings	corporation/ multi-national	blends for world

The three stages have fairly arbitrary date parameters, but in the three eras, companies of the type described predominated, so although family Victorian capitalist-type companies were the norm, there still existed smaller units, and in the third era there are remainders from both previous phases.

Each progressive phase requires more capital than the previous one. As the stocks of malt grow, more money is tied up – for longer. By law whisky must be matured for three years as a basic minimum, but most companies work on nearer a six year budgetary cycle. The estimates tend to be on the generous side, so periodically there has been more malt than buyers. This has resulted in 'moth-balling', where distilleries are closed temporarily, and more recently cheaper than standard brands have been put on the market to get rid of indifferent quality malts which would not be worth maturing.

Only rarely have malt distilleries been sold as a result of a downswing in the economy or discrepancy between estimates and reality. Over-estimation is cyclical, say Moss and Hume. This can be seen from the following distilleries' statistics.



Seizure or Detection of Illegal Plants:–

1830	392
1835	764
1840	244
1845	148
1850	142
1855	73
1860	29
1865	9
1870	5
1875	2

The preceding table and graph show, in addition, how large number of 'illegal' stills were gradually stamped out and in their place grew a comparatively smaller number of licensed ones, which had to be of a certain capacity (20 gallons initially, in 1783), though subsequent increases were made rendering it practically impossible for a small farmer to supplement his income by this method. All was left strictly to the professionals.

Some companies such as J. & G. Grant have never progressed further than the basic unit malt distillery, Others are at the second stage, such as Arthur Bell's, though it is trying very hard to reach third phase 'status'. All this leads to a fairly complicated range of companies making up the current structure.

Because blends include many malts (the exact number is secret), and few companies own sufficient for their own needs, a complex network of swopping, selling and brokerage has grown up. Many of the smaller distilleries produce 'fillings' for other companies' blends. In order to obtain the various malts needed, it would be possible to buy straight from the desired distillery, exchange some of one's own malt for it, or buy it from brokers who are independent of any company. There exist historically important relationships between certain companies – an example would be Robertson & Baxter's special relationship with Highland Distillers, where Robertson & Baxter depend on this relationship heavily to fulfil commitments.

The result of these interactions is that the industry is galvanised to a greater degree than could be said if they did not have to interact with each other so often. However, it would be wrong to over-emphasise those relationships as there remain divisions in interests and policies which cause discordant notes occasionally (as over the Bulk Malt issue).

Tables I and II show the breakdown of companies by number of distillers, and distilleries by country of ownership. Table I shows clearly the dominance of D.C.L. In addition, it shows how sixteen companies own 88% of malt distilleries – control is in few hands. Of these sixteen, only five

could be said to be Scottish companies mainly interested in Scotch Whisky (Highland, Bells, Wm. Grant, MacDonald and Martin, and Stanley P Morrison).

Table II further underlines the lack of Scottishness of the Scotch Whisky Industry. However, the figures would be more in Scotland's favour if D.C.L. was counted as Scots. Its status is very difficult to determine. Half of its turnover is in Scotch, half elsewhere (vodka, gin, et al); it is registered in Scotland, its Head Office is in Scotland, but it conducts much of its business in London.

Control rests with these few companies. They all act in the 'best' interests of their company or parent company. Particularly in the cases of the foreign multi-nationals, this is not always in the best interests of Scotch.

TABLE I

Company (country if not U.K.)	**Malt Distilleries**	**Grain Distilleries**
D.C.L.	45	5
Hiram Walker (Canada)	9	1
Seagrams (Canada)	9	
Invergordon (Hawker Siddely)	6	1
Highland Distillers	5	
A. Bell & Sons	5	
Whitbread	4	1
Grand Metropolitan	4	
Wm. Grant & Sons	3	1
Lonhro	3	
Allied Breweries	2	
Scottish & Newcastle	2	
Barton Brand (U.S.A.)	2	
McDonald & Martin Distillers Ltd.	2	
Stanley P. Morrison	2	
Speyside (half Swiss/U.S.)	1	1
total for above companies	104	10
single distilleries*	14	4
a grand TOTAL of	118	14

* These include Tomatin, Macallan-Glenlivet, North British Distillery (grain), Robertson & Baxter, Destilerias-y-Crienze (Spain), Omnia-Liumburg (Belgium), Pernod Richard (France), Publicker (U.S.A. – grain).

Source: J.K. Thompson 2

TABLE II

Distilleries by Ownership

Control	Malt Distilleries No.	Malt Distilleries Per Cent	Grain Distilleries No.	Grain Distilleries Per Cent
Scottish	26	22.0	3	21.4
* U.K.	67	56.8	7	50.0
Foreign	25	21.2	4	28.6
Total	118	100.0	14	100.0

* D.C.L. has been included in the U.K. figure. this has been hotly disputed by the D.C.L. themselves. The previous Chairman, J.R. Cater, tried to transfer power back from London over a number of years.

The Scotch Whisky Association is the trade body, but, in effect, it is no more than a glorified advertisement agency and statistics collator. It does not have much in the way of power over its members; if any action requires to be taken, it must be done with a consensus of all members. Thus, when a quality standard – say, no artificial colouring being added – is muted, if one company refuses to countenance it, the whole proposal has to be rejected. The S.W.A. does not even award quality prizes – a fairly innocuous activity introduced at exhibitions last century,which would, none-the-less, make good advertising. (And perhaps it would make certain companies more quality orientated than they have been of late.) In addition, not all companies belong to the Association.

The unions, too, are in a fairly weak position. The workforce is scattered over the country and the section which would be easiest to organise, namely those in the bottling halls, is composed largely of women, and moreover recently women in fear of losing their jobs, due to the adoption of new technology, and the depression. The fact is that the Scotch Whisky Industry ranked 70 out of 75 in a survey on manning levels (J K Thompson, 1979). It is a process industry, dispersed geographically in small units – hence there are grave difficulties in organising workers. Often in the past, when there has been a strike, it has been almost 'convenient for management', taking place in the slack season (summer) in bottling factories. With stocks high, the workforce going on strike stopped the management paying them 'for nothing'.

The Government and E.E.C.

The government will not legislate against practices widely accepted as damaging to Scotch's future. Instead it confines its activities to taxation.

TABLE III

Total tax as a proportion of retail price in main markets:

	April '78
U.K.	78%
Canada	66%
France	62%
Belgium	57%
Italy	51%
Australia	50%
Spain	50%
Germany	44%
Japan	41%
U.S.A.	38%
Venezuela	35%

Source: Distilling Sector Working Group (DSWG)

TABLE IV

Approximate amount of duty on a normal measure of five kinds of alcoholic beverage each containing approximately the same amount of alcohol.

	Present Duty per Measure
2oz. British Fortified Wine	7.84p
½ pint of Beer	7.15p
3½ oz. Imported Table Wine	10.62p
2 oz. Imported Sherry	9.22p
1 oz. Scotch Whisky	16.43p

Source: S.W.A. 1

Note – The duty-paid price per measure is subject to Value Added Tax at the current rate of 15%.

The preceding two tables illustrate how discrimination operates at an international level : Britain charges more tax on her own product than other countries do on a foreign one, and within Britain whisky pays a far higher tax than other drinks: note especially the 'foreign' drink of wine.

This duty was paid, up until recently (1982), after the whisky was made, but before it was sold. Now deferral of duty is in operation. With the often mentioned finance operating requirements as difficult as they are, the additional burden of duty before the produce is sold seemed unduly harsh.

However the Scotch Whisky Combine carried out examinations of the major corporations, such as Grand Metropolitan, Whitbread, D.C.L. et al and found that through various reliefs and deferrals the end tax payment was minimal. So when large whisky companies complain about their exorbitant tax bill, one should keep in mind that this would only be the case if they actually paid it, which they do not in full.

An E.E.C. decision in the seventies regarding dual pricing has seriously affected Scotch Whisky's reputation and market chances. Exporting Scotch Whisky to a foreign country has traditionally meant that one picks a local to be one's agent in the country, and sells the Scotch to him cheaper than the going rate, providing the local undertakes to promote (advertise) Scotch substantially. But the E.E.C. did not like two prices for the same product and banned it.

The options available to the companies were twofold: to have one price for both home and away markets and let 'parallel exports' run free, i.e., home-based wholesalers exporting abroad without needing to advertise, hence selling the whisky cheaper than the sole distributor, who was contractually obligated to advertise; or to withdraw a brand which does better abroad than at home from the home market and selling it only abroad. The latter option was temporarily taken up by D.C.L. for two of their brands, Johnnie Walker Red Label, and Haig 'Dimple'. These brands did sell well in the U.K., but the prospect of the erosion of sales abroad was felt to be more serious, so they were withdrawn. This resulted in D.C.L's overall showing in the U.K. market falling substantially. They brought out a new brand 'John Barr', which is said to be very similar to Red Label, but despite a massive promotion, sales were very disappointing. Recently this matter was resolved when 'Red Label' was re-introduced onto the home market.

Markets

Over the years an interesting structure has grown up in the carve-up of markets. (Certain companies produce for certain markets, see over). The British market standard sector is very difficult to penetrate with a new brand:

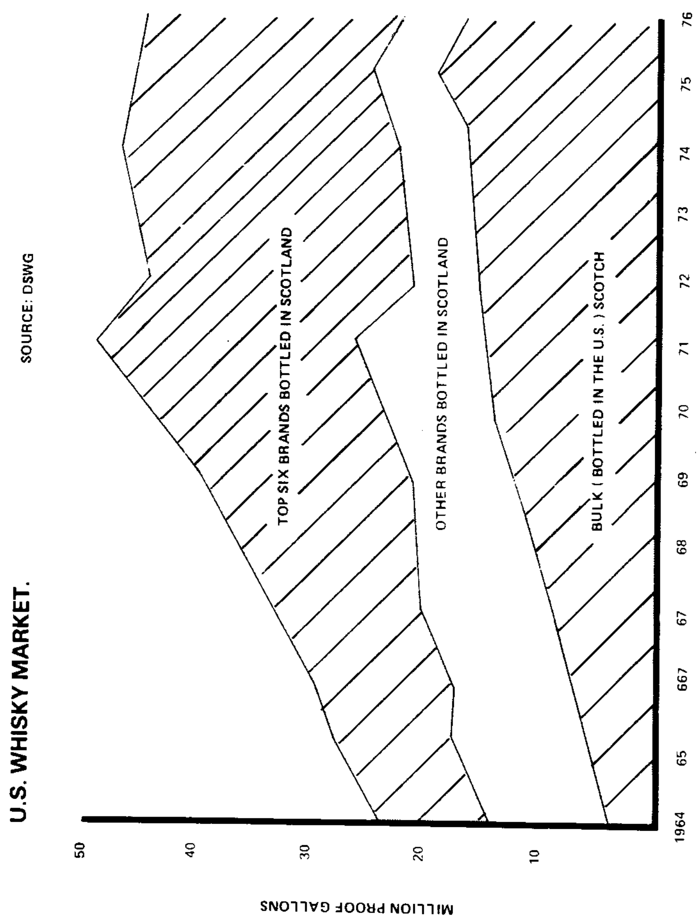
TABLE V

U.K. Whisky Market, Brand shares 1981:–

Bell's	24%
Teacher's (Allied)	15%
Famous Grouse (Highland Distillers)	8%
Haig (D.C.L.)	8%
Claymore (D.C.L.)	8%
White Horse (D.C.L.)	7%
Grant's Standfast	6%
Whyte & Mackay (Lonhro)	5%
Others	19%
	100%

Source: Mintel and trade estimates.

Scottish Government Yearbook 1985



Apart from 'Grouse' and 'Claymore', the rest of these brands have been around since the turn of the century. Bell's success has been largely since the Second World War, and especially in the seventies where the market share has risen from 13% in 1972 to the above figure (24%) in 1981. 'Grouse' and 'Claymore' are not really 'standard' brands. 'Grouse' is priced dearer than the standard brands, which makes its success all the more remarkable. The secret of its success is, in effect, no secret; it is a quality taste presented well. 'Claymore', it is agreed, is a *sub*standard brand, which was introduced to dispose of some surplus malts which were not worth retaining.

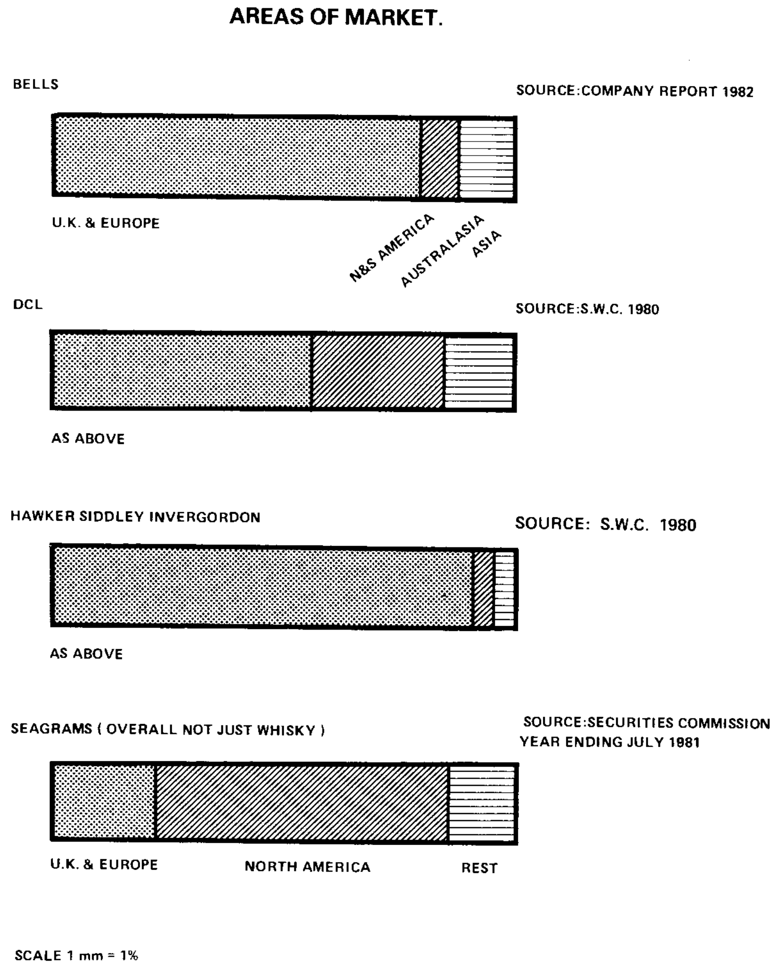
Hiram Walker's brand Ballantines and Seagram's 100 Pipers, Passport and even Chivas Regal are little known in Britain, but sell well on the export market. I have been unable to obtain breakdowns for Hiram Walker's or Seagram's Scotch Whisky market areas, but I do not think it unreasonable to transfer the proportions over from Seagram's overall market areas to their whisky operations.

D.C.L's more equal home/export ratio is largely due to history. Dewar's for example, were the first to export overseas. Tommy Dewar's travels set up links with the U.S. and colonies, which have meant that Dewar's was the brand most associated with whisky. (like biro for ballpoint pen and sellotape for sticky tape). Brand loyalty seems to rule supreme and it is terribly difficult to gain a slice in a new market. D.C.L. were the only corporation selling overseas for long enough. They have not made any attempt to buy foreign companies to augment their range of drinks to the extent Seagram's have. The companies they own abroad act for their British products, or tie in with the British market. Consequently it would be not wholly correct to describe them as transnational.

Another hindrance for Scotch Whisky reaching its fullest sales potential is the 'portfolio' method of sales, and the conflicting interests within the larger companies. Although Scotch in foreign markets is assigned to a sole distributor, that sole distributor is often sole distributor for other spirits and drinks – even whiskies. The larger the company's portfolio of drinks, the less likely it is going to devote special attention to Scotch. The same process occurs internally in large corporations. The goal is overall profits. One section will not press its own products, if it will affect another's.

Foreign Ownership and Bulk Exports

The following section will examine two major issues of the seventies which illustrate the lack of congruence between furthering some companies' profits and furthering Scotch Whisky as a product.



The first issue I will concentrate upon is the attempt by Hiram Walker-Gooderham and Worts Ltd., (to give them their full title), to take over Highland Distillers, which resulted in a Monopolies Commission Report. This would have meant a considerable increase in the concentration of control, especially non-Scottish control.

The second issue is that of Bulk Shipping, which incorporates two strands : Bulk Blend and Bulk Malt exporting. Each of the two practices give rise to differing results, as well as similar ones. They both, it is asserted, result in less employment in Scotland either now or in the future, and erode Scotch's 'quality' image.

Hiram Walker's take-over bid (it was the central company H W- G & W, not Hiram Walker, Scotland) was made in 1980, and contributed to the Bulk Shipping argument in that part of the reason for the strong feelings against the take-over was that Hiram Walker are among those who bulk export, and with the take-over, this may have increased. Many of the arguments concerning bulk exporting were set out in widely available print for the first time in the Report. It represents publicity certain sections of the trade would have rather done without.

It is ironic that Hiram Walker-Gooderham & Worts Ltd., was initially financed by Scottish money. As I have previously mentioned, their Scotch interest lie mainly with the export trade; they have no well-known home brand, whereas Highland Distillers with its hugely successful 'Famous Grouse' has a firm slice of the home market. Despite the taxation problems, the home market is still very profitable, and Hiram Walker wanted to exploit it.

'Famous Grouse' had grown in popularity to such an extent that Highland Distillers were going to embark on an export drive for this brand. Hiram Walker's were under the impression that the merger would facilitate its progress, as it could have the benefit of Hiram Walker's existing market knowledge. However, Highland Distillers pointed out that 'Grouse' would become part of a very thick portfolio, already containing a blend similar to Grouse, namely Ballantines, and this would lead to a conflict of interest.

Hiram Walker also put forward financial reasons for the takeover: they could bring to Highland Distillers' aid all the clout of a multi-national. The riposte was that Highland Distillers were on a perfectly sound financial footing, and in addition were not involved in any other industry, which would drain capital from the whisky division, (Hiram Walker have substantial oil and gas interests).

The merger would have made Hiram Walker virtually self-sufficient in malt, but Highland had longstanding commitments to fulfil with other companies, and if Hiram Walker appropriated it all for themselves, there

would have been serious disruptions to the various networks, which in turn would have led to disruption to blends perhaps creating a domino effect. Vis-a-vis Highland's 30% interest in Robertson and Baxter; the relationship went much further than that, as Highland supplied many 'fillings' for R & B's blends. If Hiram Walker had decided to alter the contracts, the results would have been disastrous for R & B.

Although there are around 118 malt distilleries of 4 geographically based taste distinctions, within these, particularly the largest Highland category, there are additional quality bands. The Report brought to light the point that, although polarisation of ownership as a whole was going to be concentrated further with the merger, polarisation would be particularly acute with respect to the top quality bracket. Hiram Walker's share would rise from two to five, but the 'big three' of D.C.L., Seagram's and Hiram Walker's slice would rise from twenty two to twenty five out of thirty-three,(76% as opposed to owning 58% of all malt distilleries).

Views were submitted by interested third parties, such as the Ministry of Agriculture, Fish and Food, who deal with the Whisky Industry (not the Scottish Office), the Scottish Economic Planning Department, the Scottish Development Agency, the Highlands and Islands Development Board, the S.T.U.C., and Whisky companies. The arguments of these bodies focussed around the points of control within the industry, bulk malt exporting and Hiram Walker's size and lack of Scottishness.

The merger would have made Hiram Walker's the second largest company. It may have used this clout to buy up more independents (or others might take an approval of the merger by the commission as being a 'green light', as the S.T.U.C. put it for them to buy up the other independents). Hiram Walker's seat of power is in Canada. That is where the major decisions are taken, not Scotland. Therefore they would not have been slanted in favour of Scotland or Scotch's interests. The arguments against Hiram Walker's range of brands swamping Scotch's interests are compounded by their foreign base.

Lastly, Hiram-Walker are one of the main perpetrators of Bulk Malt exporting. Their take-over of Highland Distillers would have made additional exporting more likely, and this was especially serious as Highland's distilleries were of premier quality.

Thankfully for Scotch, the Commission agreed with the majority and recommended that the merger was not in the public interest. The government rubber stamped it, and Highland Distillers remained as it wanted to be: independent! This Report has put a stop to further accumulation by foreign companies of malt distilleries as a whole, but it came too late to stop Seagram's takeover of The Glenlivet, Scotland's 'best' malt.

The ideal product of Scotch Whisky to be sold from the Scottish point of view is that of a blend or single malt blended, bottled and packaged in Scotland. This ensures the maximum employment for Scots both directly and indirectly involved, and guarantees the purity of the product until it reaches the customer.

However, since the turn of the century, and the opening up of the world market, the cost of transport and discriminatory taxation policies of the foreign governments has resulted in standard grade bottled in Scotland produce being priced abroad comparable to deluxe (and even higher) on the home market. Obviously this restricts the number of prospective customers. The companies tried to cut costs: a clear area where savings could be made was in the space taken up by bottles and packaging, hence the advent of bulk blend shipping. This reduced costs considerably, and was encouraged by foreign governments as a way of developing their own bottling facilities, so discriminatory taxation does not apply to the bulk product. The following table illustrates the benefits of exporting blends in bulk.

Average price of blended Scotch Whisky per gauge proof gallon for the year 1977:–

	World	U.S.A.
Bottled in Scotland	£6.71	£6.47
Bulk Blends	£2.30	£2.05

Source: DSWG

It need not be stressed too often that bottling and blending require the most labour of any section of production of Scotch and the packaging industry also benefits. Brazil goes a step further making it more lucrative to ship malt and grain separately. Blending, bottling and packaging are all carried out in Brazil itself. The N.E.D.C. Distilling Sector Working Group says that if the companies did not take advantage of this process, a bottled in Scotland brand would cost £20.

By far the most controversial act in respect of bulk blends was the old Wine Gallon Assessment Tax, which used to operate in the biggest market for Scotch, the U.S.A.

> 'Under this arrangement, imports of Scotch Whisky in bottles were subject to duty as if they were 100° Proof (American). Since Scotch Whisky, bottled in Scotland, is commonly sold at 86° Proof (American), the duty on bottled imports was higher than was justified by the spirit content.'(D.S.W.G.,78)

In effect, the U.S. government were taxing water, and raising the cost of Scotch, vis-a-vis its American competitors of the same strength. The result of this was that it became cheaper to ship whisky (blended) in bulk to America at 100° Proof (U.S.) and bottle and water it down there.

The arguments against bulk blends centre round the points that the practice creates employment in the country of destination, but not in Scotland, and that because water is added, or some more of the process is carried out, quality may be sacrificed.

Even the most cursory glance at the previous table should convey to the reader that bulk blends are cheaper than their bottled in Scotland counterparts, and that along with the bottling and blending section, constitute the greatest employment opportunities. This is sufficient incentive for a government to promote it's own bottling and blending industry and for companies to bulk export blends. However, the employment statistics also form the main component of the argument *against* bulk exporting.

TABLE VI

Export of Scotch Whisky and Northern Irish Whiskey* to the Major Overseas Markets in 1983

(Volume figures in million litres of pure alcohol)

	% of export market 1983	Malt Bottle	Malt Bulk	Grain	Blend Bottle	Blend Bulk	Total	Value £ million
USA	29.89	0.62	0.59	0.02	37.35	29.53	68.11	224.46
EEC*	24.74	2.19	2.52	0.62	39.38	11.65	56.36	227.70
France	*9.26*	*0.50*	*1.16*	*0.29*	*13.34*	*5.81*	*21.10*	*78.91*
Italy	*4.84*	*1.32*	*0.17*	*0.01*	*9.26*	*0.26*	*11.02*	*54.21*
Fed. Rep. Germany	*3.68*	*0.15*	*0.29*	*0.20*	*4.32*	*3.42*	*8.38*	*32.41*
Belgo-Lux	*2.59*	*0.07*	*0.21*	–	*3.99*	*1.62*	*5.89*	*23.40*
Others	*4.37*	*0.15*	*0.69*	*0.12*	*8.47*	*0.54*	*9.97*	*38.77*
Japan	10.53	0.13	16.09	0.01	7.72	0.04	23.99	70.13
Australia	2.83	0.08	0.03	–	0.73	5.62	6.46	15.76
Spain	3.23	0.03	1.46	–	5.86	0.02	7.37	26.89
South Africa	3.52	0.03	0.10	0.01	7.82	0.06	8.02	34.71
Venezuela	1.43	–	0.04	–	3.21	–	3.25	22.59
Canada	1.92	0.09	0.01	–	3.69	0.58	4.37	19.87
	78.09	3.17	20.84	0.66	105.76	47.50	177.93	642.11

*Exluding U.K.

The main countries blends are exported to are the U.S.A., some European Countries, Australia, New Zealand, Canada, South Africa and Brazil and Argentina. These also constitute, in the main, the major export markets for all varieties of Scotch Whisky. The proportion of bulk blends to all varieties of Scotch is illustrated in the following table.

Calendar Year	Bulk Blend (Million Proof Gallons)	% of Total Exports
1971	17.2	24.5
1972	15.8	23.0
1973	17.5	22.3
1974	18.7	21.4
1975	21.8	24.1
1976	18.6	20.3
1977	19.2	20.5

Source: DSWG

The above table shows how, during the seventies bulk blend exporting *fell* from almost a quarter of all exports of Scotch to a fifth. However, the percentage is back up to 26.7 of exports to what the S.W.A. considers the major overseas markets.

One would expect this to have fallen with the removal of the Wine Gallon Assessment Tax in the United States (by far the largest market for Scotch). Bottled in America produce is recognised as Scotch Whisky, but not of the highest quality. The carve up of the market is illustrated overleaf.

In 1980, the Wine Gallon Assessment Tax was changed so that bottled in Scotland produce was not discriminated against. Observers confidently expected a reduction in the quantity of bulk blends destined for the American market. What actually happened could not have been predicted by even the most pessimistic: the top firms raised their prices to nullify the withdrawal of the Wine Gallon Assessment Tax.

The reason that this was so unexpected was that whenever arguments against bulk blend exporting to the U.S. came up, the Wine Gallon Assessment Tax was put up as the villain of the piece. If the Wine Gallon Assessment Tax was removed 'then it is certainly likely that after a few years, the majority of Scotch blended whisky currently exported in bulk will be replaced by bottled exports'(Thompson, 1979, p.4.)

The author, John K. Thompson, asserts that the higher transport costs of bottled in Scotland produce would be offset by the cheaper bottling and blending costs of bottling in Scotland. He notes that if the Tax differential

was not removed or the differential pricing was maintained by some other method, and if Bulk Blends were stopped, they would not be replaced to any great extent by bottled-in-Scotland produce.

The N.E.D.C. Distilling Sector Working Group said that the trends shown on the previous diagram might be reversed if bulk blend exporting was made less profitable.

	Litres Pure Alcohol	£	Value/Litres Pure Alcohol
Jan.-Oct. 1979 Bottled Blends	42,346,000	125,517,860	£2.96
Jan.-Oct. 1980 Bottled Blends	36,248,000	125,066,000	£3.45
Jan.-Oct. 1979 Bulk Blends	25,683,330	24,036,360	£0.95
Jan.-Oct. 1980 Bulk Blends	27,738,000	26,440,000	£0.95

Source: S.W.C.R.

However, one should be able to abstract from this that the price of bottled-in-Scotland produce has gone up, whereas Bulk Blends have remained the same.

No concrete effort has been made to change the proportion of bottled in Scotland produce to Bulk produce. Why? The Scotch Whisky Combine argues that company profits have improved by keeping the Bulk Blends at the same level. Another reason could be that three out of the top seven Scotch brands sold in 1981 are owned by North American Corporations, who also own the major competitors to Scotch (e.g. Bourbon, Canadian Whisky, Vodka and Gin). The result of reducing bulk Scotch is that it would be contravening their policy of a 'finger in every pie' with regard to the market place and reducing their work force in the main market/base – the U.S. – which would not be a politically sound thing to do. The 1983 figure for Bulk Blend exports stands at 29.53 million litres of pure alcohol.

The fact remains that most companies which export Bulk Blends do so to other parts of their own companies, e.g., Seagram has bottling plants in all the main markets. This means that they gain a first-hand knowledge of the respective market place, and yet more control of the journey from the inception of Scotch to the customer's mouth, on a world basis. In this light, Seagram and Hiram Walker especially represent the archetypal multi-national corporation. It is company profits as a whole which matter, not that of the subsidiaries.

So the foreign governments' policy of fostering their own bottling and (in the case of Brazil) blending facilities provide their countries with employment and revenue, but for the most part profits go overseas.

From the Scottish point of view, Bulk exports of blends allow more people access to Scotch. If Bulk Blend exporting ceased tomorrow, with the current taxation discrimination, the amount of Scotch sold would fall, as would the numbers needed to be employed in Scotland to produce whisky. Less people would be able to buy the more expensive bottled-in-Scotland produce.

When statistics showing the results of having all Scotch bottled in Scotland are given, they are usually followed by a caveat which states the above, but even given that, there would be a net increase in employment in Scotland, and this is, of course, the main plank of the argument against Bulk Blend exporting.

The following table illustates the employment situation with respect to Bulk Blends.

Direct Employment Effect of Ending Bulk Exports
(by number of employees)

		Bulk blended whisky			
		1978		1979	
Sub-sector	**Av. output per employee**	**Minimum**	**Maximum**	**Minimum**	**Maximum**
Malting distilling	23,911 pg	–159	–46	–140	–40
Grain distilling	45,011 pg	–254	–73	–222	–64
Warehousing	85,025 pg	–179	–51	–156	–45
Blending	36,412 pg	–419	–120	–366	–105
Bottling	7,241 pg	+902	+2406	+790	+2106
Administration	38,057pg	–401	–115	–351	–100
Total direct employment change		–510	+2001	–445	+1752

Source: J.K. Thomson (3)

This table illustrates that the largest area for employment, the bottling and blending areas, could be expanded yet further if bulk blend exporting ceased. Whilst it is naive to imagine that companies would in fact implement this across the board, it is not quite so naive to presume that it is in the government's interest to persuade common market countries to withdraw discriminatory taxation practices, thus minimising additional costs for exports to the companies. The two main arguments for bulk blend exporting, namely discriminatory taxation and transport costs would be mitigated and more jobs would be created.

However, even given this, it must be remembered that there exists

excess capacity in the bottling halls, and new technology is ever increasingly cutting down manpower – or to be more accurate woman-power. A spokesman for Chivas Regal (Seagram) said that the whole of the Bulk Blend exports for the United States could be accommodated on his line with perhaps 50 more employees. It can hardly be disputed, however, that more employment in Scotland would result from the cessation of Bulk Blends, even in part in the bottling and blending section of the industry, and of course, the spin-off industries of glass-making and packaging.

Companies may argue that if Bulk Blends are stopped, bottled exports will probably not wholly replace them. This is certainly true in distant markets, but untenable as far as Europe is concerned. The reason is that the companies are *not* likely to change a lucrative procedure off their own bat. Government intervention or public uproar would be necessary, but neither appears to be forthcoming.

Public uproar is much more the order of the day with Bulk Blend exporting's sister problem, namely Bulk Malt exporting. There exists a famous Radio Clyde interview with W S McCann, Managing Director of Hiram Walker in the mid seventies, which focussed attention on this problem. Bulk Malt exporting does not have the same profile as Bulk Blend exporting. The practice is not as widespread with respect to quantity or number of companies involved. Whereas Bulk Blend exporting is done by D.C.L.(with half the industry's malt distilleries in it's power), along with nearly every other major exporting company, Bulk Malt exporting is confined to a few overt, largely non-Scottish corporations, Seagram, Hiram Walker, Long John (Whitbread) and Lonrho, and two Scottish companies in particular, Stanley P. Morrison and Tomatin. An alternative method of buying malt is indirectly through the brokerage system. For example, Bells only uses 50% of the malt it produces in its own distilleries, the rest is either swopped or sold to brokers. Once in the hands of brokers, anyone can buy it.

Calendar Year	Bulk Malt (Million Proof Gallons)	% of Total Exports
1971	3.3	4.7
1972	4.1	5.9
1973	6.2	8.0
1974	7.1	8.1
1975	8.0	8.8
1976	8.0	8.7
1977	8.4	9.0
1983 (S.W.A.)	20.8	17.7

Source: DSWG (These figures refer only to major markets.)

There is also a discrepancy between the countries importing Bulk Blends and Bulk Malt. The trade is heavily centred on Japan (see below) and has grown quite steadily throughout the seventies.

Thus the amount sold is not very large, but as the Distilling Sector Working Group says:

> 'The admix question has escalated into being not only an industrial and economic problem, but also in Scotland, an issue of social and political significance' (Report p.12)

Bulk Malt is not bottled in foreign countries as single Scotch Malt. It is admixed with local spirits (of any description) and renders them palatable. The reasons for selling malt in Bulk to foreigners is that it earns a substantial amount of money. (£22 million in 1977, source: DSWG). 40% of Malt distilleries would be affected if this trade ceased in rural areas of Scotland where even minor loss of employment is felt far more seriously across the whole community. Bulk Malt, it is said, also whets people's appetite for Scotch. This argument is very weak, as the Scotch content is not mentioned on the bottle, and the result of an admix may vary greatly from any Scotch taste, so the chance of any Japanese progressing up the market after a bottle of Suntory is highly unlikely. In most cases, if the customer wanted Scotch, he'd buy Scotch in the first place.

The arguments against Bulk Malt exporting are said to be couched in emotional, hence untenable language. Often authors seem to me to misrepresent the case. The major selling point for Scotch as a world drink is that it is unique and of high quality. Suntory of Japan, for example, is a huge company, well capable of going multi-national, and one of the major reasons it has got so large is that it sells products which would not do as well if it was not for their Scotch Malt component. The analogy can be drawn between the U.S. bolts which hold together the U.S.S.R's nuclear missiles, and British shipbuilders teaching the Koreans all they knew. It is said Suntory will not expand outside Japan. Why then do they sponsor golf tournaments in G.B.,(The World Matchplay of Wentworth) and the U.S. Bulk Malt exports create competitors who would be comparatively toothless without them.

The main use of Scotch whisky in Japanese whiskies is in the Special Class; 'sales of this class constitute a high proportion (47% in 1976) of the Japanese market and these Special Class whiskies do compete in price, and, to an extent, in quality, with Scotch blends' (DSWG p.13).

Why then, do the specific companies export Bulk Malt? With Stanley P Morrison and Tomatin, for example, they have no major blend that could be harmed by exporting malt. For other companies, it is a lucrative method of soaking up any 'surplus to requirements' Scotch. For Seagram and other

multi-nationals the reason is less clear-cut, until one realises that Seagram owns half of a major Japanese whisky company, Kirin, and has interests in Suntory. One arrives back to the portfolio idea; Seagram want overall success. It does not matter to them which of their companies earns the most: they want *overall* profits to be good.

This Bulk Malt can be seen to be restricting the growth of proper Scotch exports especially in the lucrative market of Japan. It is interesting that there is no longer trade in Bulk Blend exporting to Japan, which would at least be 'Scotch'. Mr Grindal of the Scotch Whisky Association said that in Japan Scotch sells because of its quality image. Japanese whisky is of lower prestige than Scotch. Bulk Blends would erode further the image of up-market brands of Scotch, as do dual priced exports, (resulting from the E.E.C. decision). Thus, from a Scottish point of view, Scotch Malt exports undermine existing and future export potential; although currently it may actually increase jobs, or rather if one was to call a halt to the process immediately, there would be a net loss of jobs. In the future, these products, which at the top end of their scale and bottom of Scotch's overlap, will lessen the potential for growth in sales and indeed erode the existing market for Scotch.

During the seventies, several measures were mooted to curtail this practice. The unions, for example, aired the matter at their conferences. The focus was on Bulk Malt, which has less of an adverse impact on jobs than Blends. The D.S.W.G. report prompted the group to try and get the companies involved to limit this exporting at least – with no concrete results.

Legislation by a British government would be practically impossible to implement as Thompson says:

> 'First any quantitive instructions or ending of bulk exports would be contrary to G.A.T.T., and would probably lead to retaliatory action by other countries. Second, as the U.K. is a member of the E.E.C., the government or any company is not permitted to place quantitative restrictions on exports'(p.13).

Monitoring of any voluntary measure taken by companies is also problematic mainly because of the brokerage system. A company can sell 'fillings' to a broker, who in turn can sell it again to anyone. Seagram, for example, exports to its own companies.

The major point I would want the reader to abstract from this is that a suitable control mechanism does not exist for the industry. The Government cannot or will not act except to cream off excise. The industry Association has no power; it operates by consensus or not at all, and only consists of part of the industry anyway.

Many people compare the Scotch situation to another spirit – cognac. The comparison is not always valid as the amount of cognac sold is only a fraction of that of whisky, but the organisation overseeing it could be used as a model (or rather could have been).

The Bureau National de Cognac is a quasi-autonomous governmental organisation, which sets and enforces rules for the constituents and grades of cognacs. There are several categories of cognac available – price is only a loose indicator. The same could apply in effect to Scotch, sectors showing the predominance of Islay or Speyside malts in a blend and grades ranging from standard through to deluxe and so on, which are well known in the trade, but as of yet are not so well known by the customer. The Bureau sets prizes and promotes the standard of cognac. This is not the case with the Scotch Whisky Association, which only becomes involved in advertising at a generic level. Around the turn of the century, gold medals were awarded for quality and were greatly coveted, but these were awarded by Trades Exhibitions – not just purely Scotch ones, but rather exhibitions for any form of industry. But once these lapsed, so did the competitions for quality.

Scotch Whisky is far larger an industry and less rare a product, but it shares with cognac its uniqueness of taste and restricted geographical location suitable to produce it.

The French government's attitude to cognac can be transferred to a more general attitude to its industry : numerous instances can be cited of protectionist or quasi-protectionist behaviour (a current one would be its treatment of Japanese video recorders). Japan too has well-known import restrictions. However, our government's 'laissez-faire' attitude has prevailed in the case of this industry, and I would propose that this has been exacerbated by the lack of public awareness of the goings-on of the Scotch Whisky Industry.

The government appears to be rather hypocritical with regard to the Scotch Whisky Industry : it creams off the largest slice of tax of any of the countries where Scotch is sold, yet is not prepared to protect or even further the Industry's prospects. Recently the S.D.A. wanted to join with the S.W.A. in a generic advertising campaign in America : however the then Scottish Minister responsible, refused the money saying "we don't back winners"!

Thus it can be seen that indulging in Bulk Malt exporting can be determined by the type of company involved. The main exporters of malt are non-Scots multi-nationals and small Scots producers. The point is that there is no control mechanism over these companies' actions, although Scotch is supposed to be special in its economic capacity and also in its social significance to the Scots' people. So, processes which almost everyone

acknowledges as damaging, go on and one wonders whether this would have been allowed to happen, if the public was not blinded by rather 'out-of-date' publicity and advertising.

Conclusions

Scotch has few rivals in the construction and maintenance of the perverted image the Scottish Nation has of itself. The product of whisky is so recognisably Scottish around the world and within Scotland. However, the associated images used in the advertising, such as tartan, kilts and sturdy army pipers in beautiful Highland glens, cast up the idea that Scots are half- tamed savages, country yokels or infantrymen rather than officers. The imagery of the 'Scottish Myth' harkens back to a 'Golden Age', which soothes the dour experience of the grey urban Scots who now constitute the overwhelming majority. The Scotch Whisky Industry has employed such symbols to telling effect in their sales drives. This has carried over to the images the natives hold of the industry: a plurality of small, Highland based, Scottish companies. But the art and skill so often emphasised *must* have been modified, in order to produce the huge gallonage which has to satisfy even the home market. A craft industry run in bothies simply could not have achieved such world dominance.

The industry is a multi-million pound process industry. It has grown from a craft industry to its current size in a century and a half. In that time, the numbers involved in making the product and controlling its industry have shrunk as the capital requirements have rocketed. This has resulted in the three stages of development, as previously described. These three stages coincide with many other industries. The industry's growth has been stunningly normal. There is nothing in the least magical or wonderful about the production process or the industry.

The product itself has been romanticised beyond belief. In the eighteenth century, 'fire-water' would be a more accurate label; it was nothing to wax lyrical about. Over the years, it has been made blander and more consistent to capture a wider, regular custom. The ingredients are so few, and it is sheer luck which has brought this 'resource' to Scotland, and 'hard nosed' businessmen who have made it prominent. It is certainly true that Scotch is a unique drink, with an unusual flavour, which has wide appeal, but this should not blind people to the fact that it is an essentially simple product, produced by large sophisticated companies, who, on on the whole, lack the romantic view that Scots have of their 'National Drink'! The common man used to make it rather like his wife would make jam until the law instigated a process of exclusion, which forbad him from distilling a batch, when required. This process has continued until non-Scottish ownership is said to exceed Scottish.

Since the Second World War, growth has been so phenomenal that it has made people forget about the slumps during the 1850's, the 1890's, the 1920's, and now the 1980s. Due to the estimations of stocks so many years in advance, and the fact that Scotch is subject to the crises in capitalism, just like any other commodity, it has cyclically slumped. This has brought much distress in the very small rural communities where the malt distillery is the focus for economic activity. Over the years, new technology has eroded work at the urban work places, especially the bottling halls. What are deemed exigencies of the markets, usually foreign ones, have given employment to foreigners at the expense of Scots and made foreign hootch palatable, to the extent that it has become eligible to challenge Scotch's position. These processes are not new and they have happened in other industries such as shipbuilding. What is clear is that if Scotch were French, it is unlikely that this would have happened.

Pubic awareness of the industry is minimal, even subliminal. The images used in current advertising might have been true once, but certainly aren't now. They are geared at middle-aged men, but they only occupy a small section of the possible custom. Recently, whisky has been losing out to white, neutral spirits, such as vodka and less neutral ones, such as rum and gin. I would suggest this has a lot to do with the wider target of appeal in their advertising. It is in this direction that Scotch should be going in the future. Scotch sells on an image of quality. Tartanry et al is often 'tacky' and this could be another reason for abandoning it.

An understanding of the current 'problems' of the Scotch Whisky Industry can only be achieved by examining its history, structure and trading practices. Only then can one put such issues as Bulk Malt exporting into perspective. This practice seems iniquitous to Scots, but, because Seagram, for example, own both companies involved, the seller and buyer, it makes sound business sense.

In a few years time we will be able to see if the Scotch Whisky Industry has analysed itself properly in the light of its recent 'problems'. D.C.L.'s change in chairmanship could lead to a new more aggressive or modern posture which could lead to its recapturing its home and foreign market share, or it might come to nought, and the company continue its slow slide away from prominence.

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